BANK OF ENGLAND

REPORT FOR THE YEAR ENDED

28th FEBRUARY

1962

Issued by Order of the Court of Directors, 28th June 1962.

ONE SHILLING NET

COURT OF DIRECTORS

28TH FEBRUARY 1962.

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*THE RT. HON. THE EARL OF CROMER, M.B.E., GOVERNOR.

HUMPHREY CHARLES BASKERVILLE MYNORS, ESQ., DEPUTY GOVERNOR.

SIR GEORGE EDMOND BRACKENBURY ABELL, K.C.I.E., O.B.E.

THE RT. HON. LORD BICESTER.

SIR GEORGE LEWIS FRENCH BOLTON, K.C.M.G.

GEOFFREY CECIL RYVES ELEY, ESQ., C.B.E.

SIR CHARLES JOCELYN HAMBRO, K.B.E., M.C.

SIR JOHN COLDBROOK HANBURY-WILLIAMS, C.V.O.

SIR FRANK CYRIL HAWKER.

WILLIAM JOHNSTON KESWICK, ESQ.

THE RT. HON. LORD KINDERSLEY, C.B.E., M.C.

†THE HON. HENRY GEORGE NELSON.

MAURICE HENRY PARSONS, ESQ.

SIR WILLIAM HENRY PILKINGTON.

SIR ALFRED ROBERTS, C.B.E., J.P.

THE RT. HON. LORD SANDERSON OF AYOT, M.C.

MICHAEL JAMES BABINGTON SMITH, ESQ., C.B.E.

JOHN MELIOR STEVENS, ESQ., D.S.O., O.B.E.

* Succeeded the Rt. Hon. Lord Cobbold, P.C., as Governor on the 1st July 1961.
† Appointed a Director on the 1st July 1961 in place of the Earl of Cromer.

The terms of office of Lord Bicester, Mr. G. C. R. Eley and Sir Alfred Roberts expired on the 28th February 1962 and they were reappointed for periods of four years.

The term of office of Sir Cyril Hawker expired on the 28th February 1962 and Mr. L. K. O'Brien was appointed in his place for a period of four years.

BANK OF ENGLAND

Report for the year ended 28th February 1962.

The first five months of the year under review marked the final phase of a period of economic expansion that had persisted, with only a brief interruption, since the end of 1958. At the start of this period, official policy had stimulated home demand, especially consumer demand, by both fiscal and monetary means. At the same time conditions abroad, the stability of home costs and prices, and the ready availability of British goods, favoured the rapid growth of exports which took place. In this first phase credit conditions were relatively easy and, in addition, the financial position of companies was improved by the rise in retained earnings that then accompanied a notable recovery of profits.

In the next phase, beginning in the winter of 1959-60, stockbuilding increased sharply, private industrial investment revived, labour became scarce and wage costs rose. The effect on spending of easy credit conditions was supplemented by a very considerable rise in the latter part of 1959 in equity share values and property values. Thus reinforced, the pressure of demand began to overload the economy and place a heavy strain upon the balance of payments. Imports rose fast while exports lost buoyancy even though world trade continued to expand rapidly.

The emphasis of policy in 1960 shifted to the selective restraint of home demand. Credit was made less easy to get, particularly for private consumption, and the cost of short-term money was raised. At the same time the financing of increased expenditure on fixed assets and stocks obliged industry and commerce to increase their long-term borrowing in the capital market. This, and a renewed prospect of inflation, pressed long-term interest rates upwards, without official resistance; and the rise in long-term rates helped to damp down the boom in equity values.

The measures taken during 1960 had, by the end of that year, substantially reduced the overload on the economy by moderating the growth in consumers' expenditure and in housebuilding. They had also exerted some restraint on capital markets. It had been possible to reduce Bank Rate from 6% to 5% late in 1960 in the face of a large inflow of short-term funds; and, in January 1961, to relax slightly restrictions upon hire purchase terms which had been introduced in April 1960.

The inflow of short-term funds in the second half of 1960 was more than enough to cover the large deficit on current and long-term capital account, so that (excluding the temporary purchase of sterling by the Ford Motor Company of America) there was little net change in the reserves of gold and convertible currencies. Underlying this, however, the external situation remained fundamentally weak; and early in 1961 overseas opinion became increasingly aware of this and of the probability that the deficit, though it might become smaller in 1961, was unlikely to be eliminated at all quickly. A fall in the level of net invisible earnings became apparent and did not seem likely to be reversed quickly. Development aid expenditure abroad had been rising, and was high in relation to the United Kingdom's balance on current account. Further prospective increases in public expenditure, private consumption, and private investment were noted. The rise in costs attracted increasing attention. These indications of the United Kingdom's economic position, especially the rise in costs, made confidence in sterling highly vulnerable to any sudden shock. The revaluations early in March of the deutschemark and guilder, occurring shortly after there had been some revival of confidence in the U.S. dollar, provided just this shock. Thereafter, until

July, neither a substantial, and at that time undisclosed, amount of credit provided by other central banks to offset international movements of short-term funds, nor the introduction of a Budget that in prospect was disinflationary, succeeded in restoring confidence in the United Kingdom's ability to maintain the exchange parity of sterling. The withdrawal of funds from London continued, at a varying pace, even after the rumours of other revaluations had subsided; and it became obvious during the summer that this crisis of confidence could not be overcome unless further measures were taken which carried conviction that the situation could be brought under control in the short term and that the United Kingdom's long-term problems would be solved.

At the beginning of the year under review monetary conditions remained moderately restrictive; and the prospect was that in the absence of further official easement they were likely to become rather more restrictive as the year went by. The underlying demand for credit remained strong. That part of it which was associated with consumers' expenditure was under some restraint but hire purchase debt was again growing. Private capital expenditure was rising fast; stock accumulation in many industries continued high. Retained corporate earnings were increasing less quickly because higher costs could not entirely be passed on in higher prices and because dividends were, for the time being, continuing to rise. So the flow of new capital issues was growing and the demand for bank advances strong. Keener competition between the various outlets for savings led to a slower accrual of funds to the building societies and this restricted their capacity to lend; and the societies' borrowing and lending rates were increased.

The liquidity ratios of the London clearing banks were barely high enough during the first quarter of 1961 to provide for the seasonal increase in their advances, even though their deposits contracted less than usual for that period of the year. Later the effects of official selling of gilt-edged stocks reasserted themselves and the underlying rise in clearing banks' deposits ceased, but the growth of advances continued. Furthermore, the estimated overall budget deficit for the financial year 1961/62 was sufficiently small to make it likely that the authorities would later be able to absorb or redeem a substantial amount of marketable government debt. The clearing banks were thus subject to continuing balance sheet pressures which, sooner or later, would oblige them to curtail the underlying rate of expansion in advances. This had indeed been somewhat reduced over the previous year, but even at the lower level these banks could only maintain the rate by selling gilt-edged stocks. In mid-March 1961 advances represented 46·6% of deposits compared with 42·7% a year previously; and the ratio of investments to deposits had been reduced from 21·3% to 16·5%; Special Deposits were at 2%. The clearing banks therefore continued to adopt relatively restrictive policies on advances, though they were able to meet some part of the demand for credit by increasing their discounting of commercial bills. Other banks were better placed, and their advances rose proportionately more quickly than those of the clearing banks.

In the market for long-term capital, conditions tended to be easier. Although the underlying upward pressure upon interest rates remained, the inflationary outlook and the prospective enactment of the Trustee Investments Bill again made equity shares attractive; and large sums could be raised in the equity market without difficulty. The amount of money raised by new issues of ordinary shares rose further in the first quarter of 1961 and remained about level in the second quarter. By the end of April ordinary share prices had risen some 19% since the start of the year. The new issue market was, however, vulnerable to a change of sentiment. Yields on fixed interest securities were becoming more attractive; yields on medium and long-dated gilt-edged stocks rose from a little over 6% at the end of April to about $6\frac{3}{8}$% at the end of June. And the outlook for company profits was not as good as it seemed unless inflation persisted.

These general credit conditions, in line with the Budget and broadly appropriate to this expansionary phase of the economy, could be maintained only while there was a prospect that the external situation could be kept under control. When it became clear that a crisis of confidence had to be surmounted quickly,

more stringent restriction of credit was scarcely avoidable, even though in some respects inappropriate to the underlying situation which called above all for measures of a different kind, measures which would tackle longer-term problems at their source.

In the three months following the Budget there was some fall in imports as the rate of stockbuilding slackened, but no sign of an increase in exports on the scale required; and net income from invisibles remained low. To some extent the poor export performance could be attributed to conditions abroad, because some countries in the sterling area were restricting imports. But elsewhere, in the United States and in Western Europe, there had for some time been rapidly expanding markets, and the United Kingdom had not secured a large enough share of the growth.

At home, the pressure of demand was rising. Order books in engineering and building were well filled; personal incomes were rising and, with serious shortages of skilled labour almost everywhere, the rise seemed likely to continue; hire purchase debt was increasing and appeared likely to increase faster in the following year; and the underlying trend of bank advances was strongly upward, with a relatively large share of the increase apparently associated with consumer spending.

The prospects for exports were gravely threatened by costs and prices rising faster in this country than abroad, and by lack of capacity to satisfy export demand as promptly as competitors abroad, in addition to meeting home demand.

Not surprisingly, there were further large movements of private short-term funds out of London, but these were partly offset by large increases in some sterling area countries' official holdings; domestic monetary conditions now displayed symptoms of an exchange crisis. Withdrawal of overseas funds from U.K. local authorities and finance houses caused additional increases in bank advances to them. Some change in commercial "leads and lags" had the same effect. Withdrawal of overseas funds also affected the gilt-edged market and a period of great uncertainty began. Home investors sought to increase their liquidity while gilt-edged yields rose to new peaks. By mid-July 2½% Consols were yielding 6½%, and long and medium-dated stocks not much less.

In the foreign exchange market the spot rate for sterling against the U.S. dollar required persistent official support. The three months' forward rate fell steeply and on the Treasury Bill comparison covered investment in New York yielded over 1½% per annum more than in London. By the end of June a net £323 million in sterling and other currencies had been borrowed under the arrangements made at a meeting of the Bank for International Settlements at Basle in March; and the reserves continued to fall rapidly in July. It was necessary both to stop the outflow of funds and to consolidate the Basle borrowing by a drawing from the International Monetary Fund.

On the 25th July, measures were taken to reduce the pressure of home demand on the country's resources and thereby give time for the foundations of a lasting external recovery to be laid. The Chancellor of the Exchequer made use of new powers to alter purchase tax and the main Customs and Excise revenue duties between Budgets by imposing an immediate surcharge of 10%, which would increase revenue by some £200 million in a full year. At the same time he announced that the increase in supply expenditure in 1962/63 over 1961/62 would so far as possible be limited to 2½% in real terms; and that Exchequer lending "below the line" to building societies would be suspended. To reinforce these measures, Bank Rate was raised from 5% to 7% and further Special Deposits were called, 1% of deposits from the London clearing banks and ½% from the Scottish banks. They and other banks were informed that the aim of policy was that the rate of increase in advances should be greatly reduced. The banks were asked to be particularly severe on advances for purposes of personal consumption, speculative building, property development and other speculative purposes; and to avoid weakening the restrictions on advances by increased lending on commercial bills. At the same time the British Insurance Association, the Finance Houses Association and the Industrial Bankers Association, were asked to observe policies similar to that requested of the banks. Finally, these measures of short-term restriction were accompanied by a stricter application of Exchange Control both on direct investment in countries outside the sterling area and on the remittance of earnings

by subsidiaries of U.K. companies already operating in such countries. In addition a number of U.K. companies making overseas investments were encouraged to seek the long-term finance they needed from outside the sterling area because Exchange Control permission for sterling remittances could not be given. The lower cost of borrowing abroad, in comparison with rates in the United Kingdom, helped to make this attractive for them. In a crisis of confidence, however, Exchange Control has only a limited influence on the movement of money. Very considerable payments from non-resident sterling balances are not touched by the Exchange Control, and the effect of the measures introduced in July could only be marginal.

The authorities did not rely solely on short-term monetary and fiscal measures. The Government inaugurated what subsequently became known as "the pay pause", and the Chancellor announced that where the Government had direct responsibility for wages and salaries they would act in accordance with the need for a pause in increases; and he hoped that other employers would follow this example. The Chancellor also asked for a pause in the growth of dividends. The "pause" was an interim measure which would in due course be replaced by a more permanent incomes policy. An urgent joint examination of the United Kingdom's economic prospects by the Government and industry would be initiated. The rate of growth and the composition of public expenditure, the level and distribution of productive investment, the training of skilled labour, and restrictive practices were among the many problems which would be examined. The essential purpose was to improve the competitive position of U.K. industry and enable exports to grow at a rate which would reconcile more rapid economic growth with the need to maintain external solvency. Subsequently the National Economic Development Council was established, with a widely drawn membership, and assigned a large and positive role in pursuing these aims.

Immediately after the announcements of the 25th July, arrangements were made for the equivalent of £536 million to be drawn in various currencies from the International Monetary Fund and a standby credit of £179 million was made available in case of need. This fortification of reserves both enabled the United Kingdom to repay the Basle credits and provided additional assurance to overseas opinion that the exchange parity of sterling would be maintained.

In the foreign exchange market the effect of the measures taken in July was almost immediate. By the end of August the spot rate for sterling against the dollar had recovered from $\$2{\cdot}78\frac{1}{2}$ in the third week of July to $\$2{\cdot}80\frac{1}{2}$ and, on the Treasury Bill comparison, the margin in favour of covered investment in New York had disappeared. Without forward cover, there was now a large margin in favour of short-term investment in London. Speculative changes in commercial "leads and lags" began to be reversed, and there was some resumption of overseas lending to local authorities and finance houses. The gilt-edged market became firmer; the yield on $2\frac{1}{2}\%$ Consols fell from $6\frac{7}{8}\%$ in early August to $6\frac{1}{2}\%$ by the end of the month, and the yield on long-dated stocks fell between $\frac{1}{8}\%$ and $\frac{1}{4}\%$. Whereas substantial official purchases of stock had been necessary to maintain an orderly market in July, appreciable official sales were achieved in August.

From the beginning of August until the end of the year under review, the pressure of home demand unmistakably subsided. The pay pause, the imposition of the 10% surcharge, the more restrictive terms imposed by hire purchase finance companies, and perhaps later some waning of consumers' confidence in their ability to keep up payments on fresh indebtedness, together halted the rise in consumer demand. Hire purchase debt outstanding, which had previously been rising, fell by 7%, £69 million, over this period. The changed outlook for retail trade, combined with the high cost and much reduced availability of bank accommodation, appear to have caused a sharp reduction in stocks in the retail and wholesale trades; this was most marked in the September quarter. Manufacturers' stocks of finished goods rose rather rapidly in the December quarter, but probably this was an involuntary response to falls in demand. Fixed capital expenditure in manufacturing industry reached a peak in the September quarter and then began to fall; and the prospect was that it would continue lower

in 1962. Capital expenditure in the rest of private industry also fell in the December quarter; and private housebuilding did not rise further. Only in the public sector did the trend of expenditure seem to be rising. The fall in home demand, which was not offset by any increase in exports, was sufficient to reduce industrial production; the index fell some $2\frac{1}{2}$% between July 1961 and February 1962. At the end of the year under review there still persisted a shortage of skilled labour, but the acute overall shortage of labour was much eased. The total of registered unemployed had risen since July from 1·2% to 2·0% of the labour force, not wholly for seasonal reasons; seasonally adjusted, and excluding school-leavers, the number of wholly unemployed had risen by some 8,000 a month over this period. But there was no immediate improvement in the trend of either imports or exports.

The reduction in the pressure of demand was accompanied by a reduction in the volume of funds lent to private borrowers by the banking system and by other lenders. Partly this was due to the working of the restrictive measures themselves and, in the case of the banks, to the growing balance-sheet pressures; but later also to some underlying fall in the demand for credit.

Bank advances fell abruptly in August and September. The immediate return to more normal conditions in the foreign exchange market, enabling U.K. exporters to repay overdrafts as they received delayed payments from abroad, was partly responsible; but the fall in retail stocks, the fall in debt owing to finance houses, and the very high level of new capital issues by U.K. borrowers were also important factors. Total new issues (less redemptions) in the third quarter, at £234 million, were nearly double the already high rate of the previous quarter. The change of trend in bank advances considerably eased the pressure on liquidity ratios despite the further calls for Special Deposits. The banks' sales of securities stopped; instead some purchases were made. Subsequently, bank advances showed little underlying change, but in the first quarter of 1962 the upward seasonal movement was unusually pronounced. Tax liabilities incurred during a period of higher corporate earnings had to be paid at a time of reduced earnings and after a year in which, so it seems, corporate liquid assets had been substantially depleted; greater recourse to bank accommodation during the revenue quarter was the result. Even so the clearing banks' combined liquidity ratio at mid-March 1962 was 32·6%.

The earlier stringency of the building societies' position was also eased. Most of them raised rates of interest paid on shares and deposits by $\frac{1}{4}$% during the September quarter and subsequently their net inflow of funds improved slightly. The amount of net new advances on the other hand fell appreciably between the third and fourth quarters of 1961.

In the market for long-term capital, conditions for the raising of new money through equities became more difficult in the autumn. Views about the prospect for profits and dividends had become far less optimistic. Considerable uncertainties prevailed, and expectations about the effect on security prices of the Trustee Investments Act had changed. Equity prices had been falling since May; the *Financial Times* industrial share index fell from 365·7 in mid-May to 284·7 by mid-October. But up to September conditions for the raising of new money remained relatively easy; thereafter, though prices ceased to fall after October, conditions were difficult.

The cost of private fixed interest borrowing remained exceptionally high, in line with the high yields obtainable on medium and long-dated gilt-edged stocks. While some fall in gilt-edged yields was not officially discouraged, the authorities continued to sell stocks, on balance, and the fall was small and gradual.

In these conditions, new capital issues were likely to be postponed. In fact the amount of such issues fell sharply in the final quarter of 1961 and continued at a much lower level in the first quarter of 1962. Issues by property companies were much reduced, and the fall in new issues by manufacturing industry was particularly steep. This fall was associated with lower fixed capital expenditures ahead and less need for finance for higher stocks; a prospect of higher retained earnings in 1962 may also have been a factor. With restrictions on bank advances still in force, such a prospect may have contributed to a temporary shift in industrial financing towards the further depletion of

liquid assets rather than a further rise in bank advances.

The fall in private demands upon the long-term capital market was not accompanied by a fall in the supply of funds seeking investment there. Even allowing for the repayment of bank advances and consumer credit, the flow of personal savings, seasonally adjusted, was well maintained in the fourth quarter of 1961. To these funds, which include savings through life insurance and pension funds, was added a quantity of overseas money attracted by the high yields obtainable on marketable securities in London. For the inflow of overseas money, once the immediate reflux following the July measures had subsided, was by no means confined to funds seeking investment in short-term loans of a 'money market' nature. New information concerning overseas ownership of U.K. securities marketable on the Stock Exchange suggests that there were substantial overseas funds seeking this type of investment in London last autumn, and this may well have been maintained in the New Year. It appears that overseas holdings of both gilt-edged stocks and equities increased. As to overseas investment, direct or indirect, in money market assets, there was little increase in reported non-official overseas sterling holdings after October; but there was some net increase between then and the end of February in the amount of sterling short-term assets held by banks in London against their foreign currency liabilities.

While industrial issues fell sharply, the amount of money raised by local authorities, on the long-term market, probably continued to rise more slowly. There developed a considerable demand for gilt-edged stocks and a significant change compared with the earlier part of the financial year 1961/62 in the means of financing the Exchequer.

During the six months from mid-March to mid-September 1961, with the reserves falling until the I.M.F. drawing in August, external transactions yielded a surplus of £323 million, but the subsequent inflow of funds resulted in net sterling expenditure by the Exchequer of £250 million. The Exchequer's cash requirement in the first half-year and its cash surplus in the second half were thus both diminished. Over the year as a whole, the Exchequer had a cash surplus of £30 million. On account of the Budget and internal extra-budgetary funds there was a small deficit of £43 million, some £240 million less than in the previous year. External items which in 1960/61, when the reserves rose, had cost nearly £300 million, yielded a surplus of £73 million.

In the first half of 1961/62 there were official net purchases of £287 million of gilt-edged stocks. About half of the sales were by the clearing banks and Scottish banks but all the main groups of holders, including some overseas holders, were selling; there was a large increase in Treasury Bills held by the market. After July the situation changed. Net official sales of gilt-edged stocks in the second half-year amounted to £263 million, the great majority being to private buyers, other than banks, and overseas non-official buyers.

By the autumn signs of diminishing pressure of home demand, the adequate initial response of credit conditions to the July measures, the renewed strength of sterling, and the undesirability of attracting a really heavy inflow of purely short-term foreign money all suggested that some reduction of short-term interest rates from their exceptionally high levels could and should be made. Bank Rate was reduced to 6½% in October and to 6% early in November. For some months thereafter it was necessary to proceed more slowly. The inflow of overseas funds abated after the reduction of November and did not recover until February 1962. By then the pay pause could be seen to be more firmly consolidated, and the estimates of public expenditure in the financial years 1961/62 and 1962/63 had been published; but the prospective rise in export and home demand during the year seemed to be as large as could be met without strain. The situation did not then call for relaxation of the credit restrictions.

EXTERNAL MONETARY DEVELOPMENTS

International monetary co-operation

The year opened with continuing doubts about the future of the U.S. dollar and balance of payments. The substantial rise of the London market gold price in the previous October had reflected these uncertainties in dramatic form. By the beginning of March there were signs that confidence in the U.S. dollar was gradually being restored and that some of the pressures were being transferred to sterling. The revaluations early in that month of the deutschemark and the guilder gave rise to exceptionally large movements across the exchanges and the pound came under particularly heavy strain. Although sterling received substantial help under the arrangements made in Basle, it remained under pressure until the Government's measures and the I.M.F. drawing were announced in July and did not rally decisively until early in August. The extent of the pressure was shown by the sharp fall which occurred in the United Kingdom's reserves from £1,141 million on the 28th February 1961 to £876 million on the 31st July, despite the receipt of credits under the Basle arrangements amounting to £323 million by the end of June. Thereafter, the reserves rose strongly, permitting repayment of part of the I.M.F. drawing to be made; by the end of February 1962 the reserves stood at £1,223 million.

Thus, within the space of a few months both the dollar and the pound were subjected to exceptional degrees of speculation, to which, as widely-held reserve currencies, they are vulnerable when doubts arise about their prospects.

International monetary co-operation has not been confined, however, to dealing with the speculative disturbances mentioned above but has covered a much wider field. There is a continuing process of consultation and co-operation between the major countries enabling them to keep in touch with each other's problems and policies; and in the year under review these co-operative endeavours have been intensified.

The Organisation for Economic Co-operation and Development

On the 30th September 1961 the Organisation for Economic Co-operation and Development (O.E.C.D.) succeeded the Organisation for European Economic Co-operation (O.E.E.C.). In addition to the eighteen European countries, formerly members of O.E.E.C., Canada and the United States are also members of the new organisation, which thus embraces all the main trading countries of the " Atlantic Community " and is concerned with wider ranging monetary and economic questions than its predecessor.

In April 1961 the Economic Policy Committee, which the new Organisation inherited from the O.E.E.C., set up two main Working Parties: one, a plenary committee, to study problems of economic growth; the other, a restricted group of officials from Canada, France, Italy, the Netherlands, Sweden, Switzerland, the United Kingdom, the United States and Western Germany, dealing with co-operation in international monetary matters and in particular the maintenance of balance in the international payments system. The monetary and economic circumstances of individual member countries and the policies of nations in surplus or in deficit are critically examined and discussed by those mainly responsible for their implementation. Such consultation is not new; but with the accession of the United States and Canada to the O.E.C.D. its scope is greater and in practice it is more regular. Thus, certain countries have taken specific actions to help to smooth out distortions in international payments; such as the repayment in advance by Western Germany of its post-war economic debts, and similar advance redemptions of external indebtedness by France, which also recently abolished restrictions on outward portfolio investment.

The Development Assistance Committee

The O.E.C.D. also established the Development Assistance Committee (D.A.C.); this Committee succeeded the Development Assistance Group, which had been an independent

body outside the O.E.E.C. Whereas the Group provided a forum for informal periodic exchanges of views between capital exporting countries, the successor Committee, under a full-time Chairman, has undertaken more frequent consultation either in plenary session or in working groups. The Committee's function, however, like that of its predecessor, is limited to the discussion of policies and problems relating to aid, and to making recommendations; the Committee does not itself organise the provision of funds. The Committee has reviewed the principles on which governments might most equitably determine their contributions to the common aid effort, and has agreed that, beginning in 1962, there should be annual reviews of each member's aid policies and programmes, with the aim of increasing the level and improving the effectiveness of the total aid.

The European Monetary Agreement

A comprehensive review of the European Monetary Agreement was carried out by the Board of Management during 1961. In the light of developments which were then taking place in other international organisations, in particular in the International Monetary Fund, it was agreed that fundamental changes in the Agreement at that time would be inappropriate. However, it was decided to increase the maximum duration of European Fund credits from two years to three years and, in special cases, to permit a further two years for their repayment. A further review of the Agreement is to be undertaken during 1962.

The Bank for International Settlements

Apart from its banking functions, the Bank for International Settlements provides a forum at its monthly board meetings for informal consultations between European central bankers, from which important results have flowed. It was as a result of such consultation, following the revaluations of the deutschemark and the guilder in March 1961, that arrangements were made for credits between central banks to counter the exceptionally heavy speculative movements that were occurring in the exchange markets and to support existing currency parities. The central banks of Belgium, France, Italy, the Netherlands, Sweden, Switzerland, the United Kingdom and Western Germany were parties to these arrangements; and in the next three months the United Kingdom received assistance in various ways, including help from certain other institutions not mentioned above, up to a maximum figure outstanding at one time of £325 million. The great bulk of the assistance had been repaid by the end of September, including repayments totalling £200 million in August. During October a further small sum was repaid; and an agreement was signed with the Swiss Federal Government providing for a loan of £17½ million out of which the final amount outstanding, due to the Swiss National Bank, was repaid. This parallel arrangement was made because Switzerland is not a member of the I.M.F.

The U.K. drawing and standby arrangement

On the 25th July the Chancellor announced that a request was to be made to the I.M.F. for a large drawing as an essential part of the programme required to meet the critical situation. The United Kingdom requested a drawing of £536 million in conjunction with a standby arrangement for a further £179 million. This drawing, which was approved by the Fund Board on the 4th August, was made in nine different currencies in order to use as far as possible the currencies of those countries which were in overall surplus and to avoid unnecessary concentration on the U.S. dollar. In order to replenish its currency holdings, the Fund at the same time sold £179 million of gold to the countries providing the funds in amounts equal to one third of the drawing made by the United Kingdom in each currency.

I.M.F. drawings are not intended to be left outstanding beyond a period reasonably related to the payments problem which gave rise to them; and the inflow of funds into the United Kingdom that occurred after July, and the consequent rise in the reserves, provided the opportunity to repay part of the U.K. drawing. The United Kingdom repaid the equivalent of £100 million in October, £50 million in November 1961 and £75 million in February 1962. The October repayment was entirely in U.S. dollars, but the repayments in November and February were partly in other currencies.

The I.M.F. borrowing scheme

During 1961 the Fund's operations became more flexible as a higher proportion of drawings was made in currencies other than U.S. dollars; after consultation with the Fund, most drawings were arranged so that greater emphasis was placed on drawings in currencies of countries in strong reserve positions. Drawings, including the large drawing by the United Kingdom, totalled £885 million, more than twice the total of any earlier year; and repurchases, at £275 million, were also considerably larger than the previous year's record of £243 million. Under the policy of diversification, only a third of the total drawn was taken in U.S. dollars, although repurchases were still made to a great extent in that currency.

It had been felt for some time, however, that the I.M.F.'s usable funds might not be fully adequate to meet all demands upon it, particularly in the event of a drawing by either the United States or the United Kingdom in conditions that made it undesirable for one to draw the currency of the other. The need for additional usable resources was also underlined by a formal decision of the I.M.F. Executive Board which established that the Fund's Articles of Agreement should not preclude member countries from using the Fund's resources in order to meet temporary outflows of short-term capital.

The manner of providing additional resources was the main topic at the Annual Meeting of the Fund in Vienna last September. Later, following technical discussions, a scheme was announced early in January 1962 which provided that ten industrial countries would together make available to the Fund the equivalent of £2,143 million in additional resources under certain conditions, though not all of this amount could be available in any particular case. The United States would provide the equivalent of £714 million; the United Kingdom and Western Germany £357 million each; and the remaining £714 million would be put up by the other seven countries. The scheme should greatly assist the Fund in the general aim of maintaining stability in international payments.

The borrowing arrangements will become effective when at least seven countries, with commitments amounting to the equivalent of £1,964 million, advise the Fund of their adherence to the arrangements; they will then remain in effect for four years. By May, Italy and the United Kingdom had adhered formally to the scheme, and substantial legislative progress had been made in the United States and many of the other participating countries.

The London gold market

The heavy international demand for gold that had driven the price on the London market to a high level in October 1960 had diminished by early 1961. After the revaluations in March 1961 of the deutschemark and guilder, the United Kingdom was selling gold on its own account up to the end of July on a scale that kept the price from rising. Thereafter the Bank of England had to sell gold from time to time to prevent the price from rising too far. International co-operation in the field of exchange stability continued with the aim of avoiding further large fluctuations in the price of gold.

STATEMENTS, ACCOUNTS AND OTHER ITEMS

BANKING DEPARTMENT

The liabilities and assets of the Banking Department at the beginning and end of the year were as follows:

£ thousands

End of February	1961		1962		Change	
Liabilities						
Capital		14,553		14,553		—
Rest		3,917		3,918		+ 1
Deposits:						
Public Deposits ...	18,239		13,145		− 5,094	
Special Deposits ...	155,100		241,400		+86,300	
Bankers' Deposits ...	251,442		249,249		− 2,193	
Other Accounts ...	68,092	492,873	72,902	576,696	+ 4,810	+83,823
		511,343		595,167		+83,824
Assets						
Government Securities ...		424,955		506,640		+81,685
Other Securities:						
Discounts and Advances	28,040		44,083		+16,043	
Securities	19,552	47,592	20,378	64,461	+ 826	+16,869
Notes		37,860		23,217		−14,643
Coin		936		849		− 87
		511,343		595,167		+83,824

Half-yearly payments of £873,180 were made to H.M. Treasury on the 5th April and the 5th October 1961 in pursuance of Section 1 (4) of the Bank of England Act, 1946.

ISSUE DEPARTMENT

The liabilities and assets of the Issue Department at the beginning and end of the year were as follows:

£ thousands

End of February	1961	1962	Change
Liabilities			
Notes in Circulation	2,212,501	2,302,141	+89,640
Notes in Banking Department	37,860	23,217	−14,643
Notes issued	2,250,361	2,325,358	+74,997
Assets			
Government Debt	11,015	11,015	—
Other Government Securities	2,237,172	2,312,950	+75,778
Other Securities	798	775	− 23
Coin other than Gold Coin	1,015	260	− 755
Fiduciary Issue	2,250,000	2,325,000	+75,000
Gold Coin and Bullion	361	358	− 3
	2,250,361	2,325,358	+74,997

NOTE CIRCULATION

Changes in the note circulation in recent years are shown in the following tables:

NOTES ISSUED, PAID AND IN CIRCULATION

£ millions

Year to end of February	1958	1959	1960	1961	1962
Issued	1,660	1,672	1,861	2,067	2,268
Paid	1,568	1,624	1,759	1,970	2,179
In circulation at the end of year	1,966	2,014	2,116	2,213	2,302
Increase in circulation as % of previous year's total	+4·9%	+2·4%	+5·1%	+4·6%	+4·0%

NOTES IN CIRCULATION BY DENOMINATIONS

£ thousands

End of February	1958	1959	1960	1961	1962
10*s*.	98,219	98,639	100,686	99,468	103,714
£1	1,337,894	1,265,124	1,218,636	1,153,329	1,091,365
£5	421,424	537,910	686,898	848,649	998,491
£10	573	540	509	476	447
£20	257	241	225	199	193
£50	517	481	447	397	382
£100	916	858	792	690	660
£200(a)	7	7	—	—	—
£500	83	79	64	61	57
£1,000	108	100	86	82	82
Over £1,000(b)	105,620	109,850	107,550	109,150	106,750
	1,965,618	2,013,829	2,115,893	2,212,501	2,302,141

The issue of £10, £20, £50, £100, £500 and £1,000 notes was discontinued in 1943, that of £200 notes in 1928.

DENOMINATIONS OF NOTES

Percentages by value of total circulation

End of February	1956(c)	1960	1961	1962
	%	%	%	%
10*s*.	5·3	4·7	4·5	4·5
£1	75·9	57·6	52·1	47·4
£5	13·5	32·5	38·4	43·4
£10–£1,000	0·2	0·1	0·1	0·1
Over £1,000	5·1	5·1	4·9	4·6
	100·0	100·0	100·0	100·0

The note circulation reached a peak figure of £2,458 million on the 27th December 1961; this was £41 million higher than the previous peak figure of £2,417 million reached on the 1st August 1961, and £80 million higher than the figure for Christmas 1960.

The Fiduciary Issue rose over the year by £75 million to £2,325 million. The changes were as follows:

£ millions

1961 March 1st ...	...			2,250
March 22nd	...	+50		
April 12th ...	...	+25		
June 27th ...	...	+50		
July 19th ...	...	+50		
August 2nd	...	+25		
August 16th	...		−50	
August 28th	...		−50	
September 19th	...		−25	
November 8th	...	+50		
December 5th	...	+50		
December 12th	...	+50		
1962 January 4th	...		−50	
January 11th	...		−50	
January 19th	...		−50	2,325

(a) The last notes of this denomination in circulation have been written off, pursuant to Section 6 of the Bank Act, 1892.

(b) Used by the Bank of England for internal purposes, *e.g.*, to represent transfers made by banks of issue in Scotland and Northern Ireland as cover for their excess note issues.

(c) Before the introduction, in February 1957, of the new £5 note.

A further Order under the Currency and Bank Notes Act, 1954, authorising the maintenance of the Fiduciary Issue at levels above £1,575 million for two years from the 14th March 1962 was made on the 26th February 1962; the previous Order was dated the 29th February 1960.

In July 1961 the Bank announced that, for technical reasons concerned with speed and economy in production, the back of the £5 note was being printed by a different method which made a slight difference in its appearance. To facilitate identification of these notes the symbol £5 at the lower corners of the design on the back of the note was no longer being printed in dark blue.

The new 10*s*. note bearing a portrait of Her Majesty the Queen was issued on the 12th October 1961, as part of the series of new notes announced in November 1959. The new note is the same length as the 10*s*. note it replaced, but about half an inch narrower; the colouring is similar, the paper is of the same quality and a metal thread is incorporated to the right of the centre of the note.

On the 27th February 1962 statutory notice was given that all £1 notes of the old series issued from 1928 to 1960, all those printed in green or blue on white paper and without a portrait of Her Majesty the Queen, were to be called in on the 28th May 1962. These notes, though not legal tender after that date, remain exchangeable at the Head Office of the Bank of England.

MANAGEMENT OF STOCK REGISTERS

The nominal totals in recent years (and, for 1962, the number of accounts) of the different groups of Stocks managed by the Bank are given below:

£ millions					Number of accounts *000's*
End of February	**1959**	**1960**	**1961**	**1962**	**1962**
British Government Securities:					
Stock	14,738	14,782	15,716	15,084	2,089
Bearer Bonds	15	14	13	13	—
Total	14,753	14,796	15,729	15,097	2,089
Other Securities:					
Government Guaranteed	3,317	3,315	3,311	3,300	589
Commonwealth, etc.	228	226	214	230	78
Local Authorities	204	221	241	253	108
Public Boards, etc.	71	71	76	85	32
Miscellaneous	15	15	15	15	1
Total	3,835	3,848	3,857	3,883	808
Grand Total	18,588	18,644	19,586	18,980	2,897

NOTE: The figures for British Government Securities do not include—

(i) amounts on the Registers of the Bank of Ireland, the Post Office Savings Department and the Trustee Savings Banks;

(ii) Tax Reserve Certificates and interest-free loans.

Operations undertaken during the year included:

REPAYMENTS

At par

		£ millions
2½% Funding Loan 1956/61	15th April 1961	309·6
3% London County Consolidated Stock 1956/61	15th November 1961	0·9
4½% Conversion Stock 1962	15th February 1962	272·2

ISSUES

For cash

			£ millions
New Zealand Government 6% Stock 1972	@ £98:10s.%	18th May 1961	20
London County 6½% Stock 1971/72	@ £96:10s.%	12th October 1961	0·9
Agricultural Mortgage Corporation Limited 6½% Debenture Stock 1975/77	@ £99:10s.%	10th November 1961	10
Corporation of London 6¾% Stock 1971/72 ...	@ £97%	1st February 1962	12

In exchange

5½% Exchequer Stock 1966 for 2½% Funding Loan 1956/61 at par with a cash payment of 10s.%	15th April 1961	482·8
London County 6½% Stock 1971/72 for 3% London County Consolidated Stock 1956/61 at par with a cash payment of £3:10s.%	15th November 1961	9·1
5½% Funding Stock 1982/84 for 4½% Conversion Stock 1962 at the rate of £110 nominal of the new Stock for each £100 nominal of the old Stock	15th January 1962	199·2
6% Conversion Stock 1972 for 4½% Conversion Stock 1962 at par with a cash payment of £2:10s.%	15th February 1962	299·9

EXCHANGE CONTROL

The principal changes in the administration of Exchange Control were as follows:

Travel: 1st June 1961

Further authority was delegated to banks in respect of travel facilities for special purposes; and where the amount of these facilities did not exceed £250, forms were no longer required.

Direct Investment Abroad and Repatriation of Overseas Profits: 25th July 1961

The Chancellor of the Exchequer announced that a more severe test would be applied to new investments in the non-sterling area, namely, that they would have to produce clear and commensurate benefits to U.K. export earnings and to the balance of payments in the short term.

Steps were also taken to supervise the operations of foreign subsidiaries of U.K. companies with a view to ensuring that an adequate part of their foreign currency earnings was remitted to the United Kingdom.

Re-finance facilities: 9th February 1962

Authority was delegated to U.K. banks to allow re-finance facilities up to 180 days for Scheduled Territory exports either by way of bills or, in certain cases, overdrafts.

OTHER ITEMS

Finance for exports

The arrangements, announced in February 1961, to promote the availability of medium-term credit for U.K. exports did nothing to modify the terms under which such credit was made available. During the year now under review these terms were criticised on the grounds that U.K. exporters had to pay a relatively high rate of interest, and that rates of interest linked with Bank Rate were unpopular abroad. It was also said that exporters were experiencing difficulty in finding lenders for periods in excess of five years.

With a view to meeting this criticism, two further developments of existing facilities were announced in January 1962. The London clearing banks and the Scottish banks agreed to supply medium-term finance for the export of heavy capital equipment at a fixed rate which was set at 5½% for an initial period of five years; their normal lending rate for such transactions had previously been 1% above Bank Rate, minimum 5%. And about fifty of the leading insurance companies undertook to provide up to £100 million for periods in excess of five years at 6½%; as in the case of bank finance this rate is to remain unchanged during the first five years. In March 1962 the insurance companies concerned established a new company, the Insurance Export Finance Company Limited, to administer their participations in this scheme.

The Bank have continued to receive throughout the year much assistance and close co-operation from market institutions, particularly the associations of banks, finance houses, insurance companies, and the commodity markets. This co-operation brings many advantages in the execution of monetary policy, and the Bank wish to record their appreciation of the help they have received in this way.

BANK OF ENGLAND

28TH FEBRUARY 1962

ISSUE DEPARTMENT

	£		£
Notes Issued		Government Debt	11,015,100
In Circulation	2,302,141,402	Other Government Securities	2,312,949,678
In Banking Department...	23,217,219	Other Securities	774,775
		Coin other than Gold Coin	260,447
		Amount of Fiduciary Issue ...	£2,325,000,000
		Gold Coin and Bullion ... (@ 249*s*. 3*d*. per oz. fine)	358,621
	£2,325,358,621		£2,325,358,621

1*st March* 1962

J. Q. HOLLOM, *Chief Cashier.*

BANKING DEPARTMENT

		£			£
Capital		14,553,000	Government Securities ...		506,639,624
Rest		3,917,764	Other Securities		
Public Deposits (including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts)		13,145,313	Discounts and Advances	£44,082,830	
Special Deposits		241,400,000	Securities	£20,378,461	64,461,291
Other Deposits			Notes		23,217,219
Bankers	£249,248,943		Coin		849,103
Other Accounts	£72,902,217	322,151,160			
		£595,167,237			£595,167,237

1*st March* 1962

J. Q. HOLLOM, *Chief Cashier.*

Copies of this Report may be obtained from the Central Banking Information Department, Bank of England, London, E.C.2.

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